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Report

drawn up on behalf of the Committee on Budgets

on the fixing of the ECSC levies and on the ECSC operational budget for 1979

(Doc. 497/78)

Rapporteur: Mr H. SCHREIBER

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By letter of 29 November 1978 the President of the Commission of the European Communities forwarded to the European Parliament the Commission's proposal on the fixing of the ECSC levies and on the drawing up of the ECSC operational budget for 1979.

The President of the European Parliament referred this proposal to the Committee on Budgets. On 16 October 1978 the Committee on Budgets appointed Mr Schreiber rapporteur.

The meeting of the four committees concerned - the Committee on Budgets, the Committee on Economic and Monetary Affairs, the Committee on Social Affairs, Employment and Education and the Committee on Energy and Research - was held on 4 December 1978.

At its meeting of 5 December 1978 the Committee on Budgets considered the draft report and adopted the motion for a resolution with fourteen votes in favour and one against.

Present: Mr Lange, chairman; Mr Aigner, Mr Bangemann and Mr Cointat, vice-chairmen; Mr Schreiber, rapporteur; Mrs Dahlerup, Lord Bruce of Donington, Mr Früh, Mr Inchauspé, Mr Meintz, Mr Nielsen, Mr Ripamonti, Mr Ryan, Mr Shaw and Mr Spinelli.

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A

The Committee on Budgets hereby submits to the European Parliament the following motion for a resolution, together with explanatory statement:

MOTION FOR A RESOLUTION

on the fixing of the ECSC levies and on the ECSC operational budget for 1979

The European Parliament,

- having regard to the Commission's aide-mémoire on the fixing of the ECSC levies and on the drawing up of the operational budget for 1979 (Doc. 497/78),
- having regard to the joint meeting of the Committee on Budgets, the Committee on Economic and Monetary Affairs, the Committee on Social Affairs, Employment and Education and the Committee on Energy and Research,
- having regard to the report of the Committee on Budgets (Doc. 502/78),
- having regard to
 - (a) the continuing unfavourable economic situation and the structural crisis in the iron and steel industry,
 - (b) the resulting growing need of this sector of industry for adaptation grants, research aid and interest subsidies as accompanying measures for the necessary reorganization of the industry,
 - (c) the fact that the necessary funds for this expenditure must, under the provisions of the ECSC Treaty, be raised by the coal and steel undertakings themselves,
 - (d) the Commission's figure of 257 million EUA for the funds required as against ordinary revenue of only 120 million EUA.

as regards revenue

1. Does not consider a change in the levy rate appropriate in the present economic circumstances,
2. Approves therefore the unchanged levy rate of 0.29% proposed by the Commission, which will yield an estimated revenue of 98 million EUA,

3. Is of the opinion that

- (a) the necessary financial resources to meet the deficit in the ECSC operational budget for 1979 must be obtained by recourse to the customs duties on coal and steel products collected by the Member States,
- (b) it is of decisive importance in this connection that the loophole in the decision of 21 April 1970, which for the area covered by the EEC Treaty replaced contributions by the Member States with the system of Community own resources, should be closed so that the customs duties on ECSC products accrue to the benefit of the ECSC,
- (c) any other solution which makes the financing of the deficit dependent on decisions by and/or contributions from the Member States jeopardizes the ECSC's financial autonomy;

as regards expenditure

- 4. Draws attention to the actual expenditure requirement of 257 million EUA calculated by the Commission,
- 5. Considers, in the light of the economic and social situation in the coal and steel sector, the reductions made by the Commission in the research aids and aids in the form of interest rebates to be very unwise,
- 6. Approves reluctantly, in view of the limited revenue, the expenditure figure of 180 million EUA proposed by the Commission for the operational budget,
- 7. Urges the Commission once again to coordinate ECSC measures with all other Community measures such as the Social Fund, Regional Fund and the European Investment Bank, particularly as regards the close interdependence that exists between measures taken under the ECSC Treaty and those taken under other treaties in fields such as, for example, environmental protection and public health; is moreover of the opinion that in the long term the ECSC budget must be fully integrated into the general budget of the European Communities both as regards its presentation and the procedure for its examination and adoption,

as regards general budgetary aspects

8. Requests the Commission furthermore to give detailed consideration to the role of this operational budget and the interrelationship and necessary links with the far larger ECSC investment budget and the general budget of the Communities,
9. Urges the Commission once again to indicate to the Council and Parliament possible ways of integrating ECSC and EEC activities that are compatible with the existing treaties,

as regards budgetary control

10. Criticizes the fact that the Committee on Budgets still does not have at its disposal the Court of Auditors' report on the ECSC for the 1977 financial year,
11. Draws attention to the fact that this constitutes an infringement of Article 78 of the ECSC Treaty as amended by the Treaty of 22 July 1975 amending certain financial provisions,
12. Criticizes vigorously the state of affairs that has thereby arisen, which does not permit Parliament to assess the present position in full knowledge of all the facts,
13. Points in this context once again to the need for control by Parliament of all the financial activities of the ECSC and declares its intention of exercising control over the ECSC's investment budget; is accordingly of the opinion that the Commission should submit appropriate proposals to Parliament as rapidly as possible to ensure that this control can be applied with effect from the 1979 financial year,
14. Asks the Commission to submit to the European Parliament after the first half of next year an interim report on the situation in the coal and steel sector, on the social measures necessary to overcome the difficulties in these industries and on the financial implications; this report should, where appropriate, define an overall approach involving all Community instruments with a view to resolving the crisis in this sector.

EXPLANATORY STATEMENT

A. Special features of the ECSC budget

Financial provisions

1. Under Article 49 of the ECSC Treaty, the Commission (formerly the High Authority) is empowered to procure the funds it requires to carry out its tasks:

- by imposing levies on the production of coal and steel,
- by contracting loans.

2. Proceeds from the levies constitute an essential component of the revenue side of the operational budget and are determined by the rate of levy fixed by the Commission, which may not exceed 1% without previous authorization by the Council (Article 50(2) of the ECSC Treaty).

3. No special restriction is placed on the contracting of loans, which form part of the much larger and more significant investment budget of the ECSC.

4. Each year Parliament delivers an opinion on the operational budget, after the Commission's explanations have been jointly considered by the Committee on Budgets, the Committee on Economic and Monetary Affairs, the Committee on Social Affairs, Employment and Education and the Committee on Energy and Research.

Views of the Committee on Budgets and of Parliament on the budgetary procedure

5. The Committee on Budgets and its working party on the inter-institutional dialogue on certain budgetary questions have in recent years devoted considerable attention to possible ways of improving the budgetary procedure. The main proposals put forward, and endorsed by Parliament, have been:

- Budgetization of ECSC financial transactions¹. This request was motivated by the growing importance of the investment budget of the ECSC and the need for control by the budgetary authority.

¹Doc. 97/76 (Report on the inter-institutional dialogue on certain budgetary questions, p. 23)

- Merging the operational and investment budgets into a single ECSC budget and coordinated adoption of the ECSC budget and the general budget¹.
- 'Integration of ECSC and EEC activities' to provide the budgetary authority 'with a more comprehensive picture of Community finances'².
- Submission of a programme for borrowing and lending policy to Parliament, 'which, each year, must have the opportunity to assess its scope and, where necessary, propose amendments'³.

Positions adopted by the Commission

6. The Commission has given detailed answers to the requests and comments made by Parliament, both in its reply to the report of the Committee on Budgets on the inter-institutional dialogue on certain budgetary questions and in Volume 7 A of the preliminary draft budget of the European Communities for the financial year 1979:

- The Commission cannot go along with Parliament's recommendation that resources should be drawn from the general budget to make good the financing of the ECSC budget.

'The general budget cannot provide aid for the coal and steel sectors except in the case of certain measures forming part of a broader policy instituted under the Treaty of Rome'⁴.
- The Commission emphasizes its efforts to raise the necessary additional funds by allocating to the ECSC budget the customs duties on ECSC products.
- The Commission takes the view that, 'on the legal plane, the general budget and the ECSC operating budget could be merged only in the context of a future merger of the Treaties and the decision of 21 April 1970 on the allocation of own resources to the European Communities'.

¹Doc. 119/77, (Report on the inter-institutional dialogue on certain budgetary questions, p. 17)

²Resolution on the ECSC operational budget for 1978, paragraph 5 (OJ No. C 6, 9.1.1978, p. 30)

³Resolution on the discharge in respect of the ECSC budget for 1976, paragraph 13 (OJ No. C 6, 9.1.1978, p. 26)

⁴Reply by the Commission of the European Communities to the report drawn up by Mr COINTAT on behalf of the Committee on Budgets of the European Parliament on the inter-institutional dialogue on certain budgetary questions, PE 56.170/Ann.II, p.18

- The Commission is still of the opinion that it would not be realistic to consider presenting the draft ECSC budget earlier in the year because the statistics needed to calculate the yield from the levy, which is the predominant resource, do not become available until the end of September, and even then only in part.

It also points out that the Council takes no part in approving the ECSC budget.

It adds that the operational budget is only a forward estimate of requirements and revenue on which is based the annual decision on the rate of levy.

- Finally, the Commission recalls that, to ensure consistency and practical coordination among the various Community instruments, it has formed a permanent task force which follows up activities under both the general budget and the ECSC budget and keeps under review any problems which may arise in connection with the adaptation of these financial instruments to present and future needs. It adds that 'consistency in administering the various Community instruments in this area must be achieved by consultation and contacts between the departments concerned'¹.

B. Features of the operational budget for 1979

7. As will be shown below, the Commission has, as in previous years, again adapted its proposals for expenditure to the resources available. Even so, the operational budget for 1979 is approximately 18% higher than in the previous year. A breakdown of the individual categories of expenditure in the last three years is given below:

	1977	1978	1979
- Administrative expenditure	18	5	5
- Aid to resettlement	25	60	67
- Aid to research	38.4	41	47
- Interest relief	21.8	40	55
- Aid to coking coal	6	6	6
- Aid to Friuli victims	5	-	-
	114.2	152	180

¹Volume 7 A of the preliminary draft general budget for 1979, p.87

8. It may be seen from the table that, if the implementation of the ECSC operational budget for 1979 follows the lines proposed, the rise in expenditure between 1977 and 1979 will be quite substantial (57%), and that the budget will soon reach the 200 m EUA mark. Nevertheless, each year, including the present one, a reduction in the necessary expenditure has had to be proposed in order to adapt it to the revenue that is available or can be raised. For example, the Commission put the requirements for 1978 at 273 m EUA. Actual expenditure estimated at 152 m EUA means that in 1978 only 55.7% of the expenditure regarded as essential will in fact have been implemented.

9. Owing to the decrease in the appropriation proposed for 1979 (257 m EUA) the proportion covered has risen to 70%. Although this is a welcome trend, it has been brought about solely by the decrease in the estimates and the virtual doubling of the revenue expected from sources other than current revenue from the levy. Analysis of the revenue structures of the budget between 1977 and 1979 underlines the lack of flexibility in the sources of revenue:

	<u>1977</u>	<u>1978</u>	<u>1979</u>
	(final figures)	(estimates)	
1. Current resources			
1.1 Levy yield at 0.29%	86.8	100	98
1.2 Interest on investments and on loans from non-borrowed funds	16	18	18
2. Cancellation of commitments not implemented	7.1	2	4
3. Unused resources carried over from previous year	0.7	token entry	token entry
4. Drawing on contingency reserve	3.5	-	-
5. Special contribution/customs duties	-	32	60
	<u>114.1</u> =====	<u>152</u> ===	<u>180</u> ===

10. In relation to the general budget of the European Communities as proposed by the Commission in its preliminary draft for 1979, the ECSC budget comes to a paltry 1.3%. However, the expenditure proposed in the coal and steel sector is actually four times as high as the appropriation earmarked by the Commission for industry and transport in its 1979 preliminary draft. The disparity could be even greater, depending on the appropriation eventually arrived at for Chapter 32 after discussions between Council and Parliament.

11. If one takes account in this connection of the very expensive activities of the European Coal and Steel Community in the borrowing and lending sector (investment budget), one obtains a picture of the Community's impressive activity in the coal and steel sector: As at 30 June 1978 long-term loans by the ECSC totalled 4,360 m EUA.

12. This makes it all the more imperative that these wide-ranging financial activities should be brought within the European Parliament's overall control over the Commission's implementation of the budget.

C. The economic situation as a framework and basis for the operational budget for 1979

13. As in past years, the Commission devotes part of its 'Aide-mémoire on the fixing of the ECSC levies and on the drawing up of the operational budget' to an examination of the economic and financial situation in the individual sectors.

Economic context

14. The main characteristics of the Community's present economic situation are:

- a slight increase in consumer demand,
- a rise in production in the building sector,
- an average increase in consumer prices of around 7.5% in spring 1978,
- no improvement in the unsatisfactory situation on the employment market,
- a rate of growth in the GDP of around 2.5% in real terms.

Coal and steel

15. Total consumption of coal in the Community will remain at about 285 to 290 m tonnes, some 35% of this figure being accounted for by coke ovens and other requirements of the iron and steel industry. The poor competitive position of Community coal, which has been affected also by the fluctuations in exchange rates and the steady depreciation of the dollar, particularly against the German mark, means that this sector must continue to rely on aids.

16. In 1978 there was a slight improvement in steel production compared with 1977. There was an increase in net steel exports by the Community, due partly to measures taken by the Commission on imports and partly to the increased buoyancy of some of the main export markets.

17. Overall, the situation in the iron and steel industry remains unsatisfactory. 'The problems of economic viability and market discipline are likely to continue in the immediate future'¹.

COMMISSION'S GUIDELINES

Coal policy

18. Within the framework of the budgetary procedure the Commission has repeatedly put forward proposals to encourage sales, but these have so far failed to secure any firm decisions on the part of the Council.

Steel policy

19. To improve the profitability of undertakings and alleviate the pressure from imports, the Commission adopted a number of measures in 1978 to stabilize the market: Guide prices were increased, as were prices for some individual products, bilateral agreements were concluded for new products in order to prevent undercutting of prices. In the case of certain finished products quotas were introduced for individual undertakings.

Social policy

20. These measures, which were introduced with a view to restructuring the industry and maintaining the competitiveness, must obviously be accompanied by social measures. In this connection Articles 54 and 56 of the ECSC Treaty lay down specific provisions, which could well serve as a model for a Community social and regional policy:

- redevelopment aid is comparable to that obtainable under the Regional Fund, although the latter has a wider range,
- resettlement aid could serve as a model for Social Fund measures.

¹Commission's aide-mémoire, p. 10

21. These measures and major projects must be seen in the context of the situation in the iron and steel industry, where more than 3,000 workers per month are being made redundant this year; in fact the Commission estimates that the total workforce in this sector might fall by about 100,000 over the coming years in order to gear manpower levels to production requirements¹. The Commission echoes the point made on a number of occasions by the European Parliament, namely that in the context of the restructuring programmes and the accompanying social measures, it is essential to coordinate all the resources and instruments at the Community's disposal:

- Assistance from the ECSC,
- Regional Fund,
- Social Fund,
- European Investment Bank.

22. Unfortunately, the Commission's document has nothing to say on the actual measures taken so far or on the results achieved.

D. Analysis of financial requirements

Fixed expenditure

23. Three categories of expenditure (administrative expenditure, aid to coking coal and metallurgical coke, aid to resettlement) are governed by existing regulations or outline agreements with the Member States:

- (a) the lump-sum contribution to administrative expenditure of 5 m EUA, brought down to this level since 1978.
- (b) Aid based on Article 95 of the ECSC Treaty, consisting of a lump-sum payment of 6 m EUA into a special fund administered by the Commission, to subsidize intra-Community sales of Community coking coal intended for the iron and steel industry.
- (c) Aids to resettlement in the form of non-repayable grants amounting to 50% of expenditure incurred by the Member States on the payment of tideover and resettlement allowances to workers and on financing of vocational training for workers having to change their employment. On the basis of data supplied by the Member States, the Commission estimates the requirement at around 67 m EUA. The requirements in the iron and steel industry have risen to a particularly high level owing to the gradual rationalization and restructuring of the sector (44 m EUA).

¹Commission's aide-mémoire, p. 18

Research sector

24. On the basis of Articles 50 and 55 of the ECSC Treaty, the Commission grants aid for research projects in the steel, coal, and social and medical sectors amounting to 60% of the estimated and substantiated costs. The Commission has calculated an overall requirement of 84 m EUA for this purpose.

25. Research in the steel sector is primarily intended to

- reduce production costs,
- improve the quality of products,
- encourage more effective utilization of steel and the development of new applications.

26. The Commission points to the cardinal importance of such research for effective restructuring of the European steel industry and for the improvement of its competitiveness. Research and development expenditure by Community steelmakers represents barely 0.5% of their turnover, whilst the figure for Japan is approximately 1.5%.

27. In the coal sector, intensified research is one way of achieving the productivity and production objectives. At the same time research into the gasification and liquefaction of coal fits in with the efforts being made under the energy policy to develop new sources of energy.

28. In the social sector a series of projects are being undertaken in areas such as pollution control, safety and industrial hygiene.

Regional and industrial sector

29. The most important contribution here takes the form of interest relief grants made on the basis of Articles 54 (investment) and 56 (redevelopment) of the ECSC Treaty. Calculations are at present based on interest relief of 3% over 5 years. The Commission regards ECSC loans with interest relief as the principal financial instrument for promoting Community restructuring and redevelopment policies. It calculates that 50 m EUA will be needed for investment and 45 m EUA for redevelopment, and points out that the figure of 50 m EUA covers only 2% of the recent average level of investment in this sector¹.

30. The maximum size of redevelopment loan eligible for interest relief is at the moment 20,000 EUA per new job. It is possible that 25,000 jobs will be lost in the iron and steel industry in 1979. This would mean that loans with interest relief totalling 500 m EUA would have to be granted, together with non-repayable interest relief amounting to 75 m EUA. However, the Commission reckons on 'only' 15,000 jobs being lost, making the requirement 45 m EUA. The Commission therefore calculates a total requirement for interest relief of 95 m EUA.

¹Commission's aide-mémoire p. 36

Other financial requirements

31. In addition to the requirements to be financed by non-repayable grants from the year's resources, there is the ECSC housing subsidy scheme, financed 'below the line', which has been in operation since 1956. The special reserve, constituted by interest on investment and loans from own funds, is used for this purpose.

32. Under this scheme the Commission gives long-term 1% interest loans to the appropriate national bodies as a subsidy to finance the cost of housing. The number of dwellings subsidized in this way as at 1 January 1978 was more than 150,000. The Commission calculates that a total of 35 m EUA will be required, spread over the 1979 and 1980 financial years. The appropriation for 1979 is accordingly set at 17.5 m EUA, to be financed partly from repayments on loans for social housing and partly from the special reserve and the former ECSC Pension Fund.

Summary

33. The Commission estimates the total requirement at 257 m EUA plus 17.5 m EUA in the form of below-the-line loans for social housing.

E. Problem of adapting expenditure to revenue

Levy

34. Given that the levy is applied to Community coal and steel production and that the Commission predicts an increase of 9% for coal and a reduction of about 5% for steel in the coming year, the estimated revenue of 98 m EUA will remain roughly at last year's level of 100 m EUA.

35. The estimated revenue from interest on investments and loans against non-borrowed funds remains unchanged at 18 m EUA.

36. The Commission calculates that cancellation of commitments which will probably not be implemented will yield 4 m EUA.

37. The total revenue available thus amounts to 120 m EUA. The shortfall in relation to the requirement of 257 m EUA estimated by the Commission is accordingly 137 m EUA.

38. These figures underline the dilemma posed by the ECSC operational budget. The mounting crisis in the iron and steel industry increased the need for conversion, resettlement and restructuring, and at the same time appreciably curtailed the industry's ability to finance such measures. This situation explains the fact that the rate of levy has remained unchanged since 1972 at 0.29%.

39. This has led the Commission to propose the creation of new resources for the ECSC, namely the proceeds from customs duties on trade with third countries in ECSC products. In connection with the operational budget for 1978 a draft decision¹ was put to the Council, which on 21 December 1977 accepted a special contribution for 1978 amounting to 32 m EUA. The Commission's communication of 16 May 1978 (COM(78) 181 final) was accompanied by a draft Council decision allocating customs duties on ECSC products to the ECSC. The arrangements for transferring these resources have still to be settled.

¹COM(77) 561 final

40. On the basis of a lump-sum repayment of the costs of collection of 10%, as in the general budget, the Commission calculates that the net revenue available for 1979 would be 60 m EUA.

41. On the assumption that Parliament and the Council will accept the allocation of this revenue to the ECSC budget, the shortfall would amount to 77 m EUA. It would be necessary to raise the rate of levy to 0.52% in order to cover the remaining deficit.

42. In view of the economic situation and the extremely heavy burden being carried by the coal and steel industry in the form of the necessary adjustment and restructuring measures, the Commission considers that it would be intolerable to raise the rate of levy from its present level of 0.29%. It has therefore examined the individual categories of expenditure to see where cuts might be made and has arrived at the following conclusions:

- in connection with restructuring, the appropriations proposed for resettlement of 67 m EUA must be regarded as an absolute minimum,
- the aids to coking coal amounting to 6 m EUA and the lump-sum contribution of 5 m EUA to administrative expenditure are also fixed,
- the possibility remains of cutting back aids to research and aids in the form of interest relief, which the Commission proposes to reduce to 47 m EUA and 55 m EUA, respectively, which represents a cut of just under half.

43. The Commission does not provide any detailed explanation of the criteria on the basis of which it has arrived at an acceptable reduction in these categories of expenditure.

Creation of own resources

44. The recurrence year by year of adjusting necessary expenditure on an industry affected by crisis to revenue that it has for the most part to provide itself underlines the problems arising from the provisions of the ECSC Treaty, which were designed to cater for a totally different situation. It is imperative that all customs duties collected on ECSC products should, by analogy with the decisions of 21 April 1970, be allocated to the ECSC. The proposal put forward by the Commission on 16 May 1978 (COM(78) 181 final) provides the necessary basis. The Commission should, however, put forward at the earliest possible date the detailed provisions for the payment of this revenue to the ECSC.

45. In connection with the combination of the ECSC operational budget with the general budget of the Communities, which has for a long time been called for by Parliament, thought should also be given to the extent to which additional funds from the general budget might be made available.

F. Conclusions

46. The foregoing survey reveals the dilemma encountered with ECSC finances: the revenue cannot keep pace with expenditure on projects that are becoming more extensive and more urgent all the time. All the attempts made hitherto, for example the reduction in the lump-sum payment towards administrative costs and the transfer of a special contribution from the customs duties on steel products collected by the Member States, must be regarded as inadequate and not comprehensive enough.

47. The first essential step must be to allocate to the ECSC all customs duties levied on ECSC products. On 16 May 1978 the Commission submitted to the Council a draft decision with that aim in view¹. Unfortunately, the Commission has so far failed to produce a detailed implementing regulation for the transfer of revenue from customs duties on steel products. In this connection attention is called to the long drawn out negotiations among the Member States on the distribution formula for the payment of the special contribution to cover the deficit in the 1978 budget, which extended for a whole year, so that the contribution became payable only on 1 December 1978.

48. In its resolution of 14 December 1977² Parliament firmly endorsed the proposal for a permanent transfer of customs duties. At the same time, however, Parliament urged the Commission (paragraph 5) 'to submit a report to Parliament that defines an overall approach to the opportunities for action under the general budget and the operational budget of the ECSC, recommends a measure of integration of ECSC and EEC activities (without sacrificing the financial principles of the ECSC Treaty, which must remain the model to be followed) and provides the budgetary authority with a more comprehensive picture of Community finances'. No such report has as yet been received.

¹COM(78) 181 final

²Doc. 439/77, paragraph 4

49. In conclusion the Committee on Budgets points out that Parliament's guidelines concerning the ECSC operational budget and the rate of levy have since 1958 been formulated at a joint meeting of the Committee on Economic and Monetary Affairs, the Committee on Social Affairs, Employment and Education, the Committee on Energy and Research and the Committee on Budgets. Since 1970 the Committee on Budgets has, in the light of this meeting, submitted a report to Parliament, which has had the last word on this operational budget and rate of levy.

50. The Committee on Budgets takes the view that this procedure can be simplified and that from next year onwards the decisions concerning the ECSC operational budget and its revenue could be taken at meetings of the Committee on Budgets, at which representatives of the above-mentioned committees would take part.

